

RENTON SCHOOL DISTRICT NO. 403
King County, Washington
Special Audit
September 1, 1995 Through August 31, 1996

Schedule Of Findings

1. Public Funds Were Misappropriated From The Renton High School Associated Student Body Fund

Our audit of the financial records of Renton High School Associated Student Body (ASB) Fund cash receipts revealed that at least \$1,703.30 in public funds was misappropriated by one or more unidentified employees or students during the period September 1, 1995, through August 31, 1996. There were no federal funds involved in this case. These funds were misappropriated as described below.

Recorded cash receipts were taken from the Renton High School ASB Fund. While the bookkeeper issued cash receipts for various revenue transactions from activities at the school, the funds related to the transactions listed on page 44 of the cash receipts journal were never subsequently deposited in the bank. This included cash receipt numbers 13576 through 13602 during the period November 27-30, 1995. The bookkeeper entered these transactions in the district's computer accounting system for the various clubs and activities which turned in funds during this period. However, these transactions were not subsequently reported to the district on the monthly reports such as the "Account Reconciliation Plan Deposit Reconciliation" and the "Reconciliation of Receipts and Deposits." As a result, the district's accounting records do not accurately reflect the amount of funds available for use by the various clubs and activities. These irregularities went unnoticed for almost a year.

The Renton High School ASB Fund bookkeeper was solely responsible for recording all cash receipt and cash disbursement transactions, making bank deposits, safeguarding funds, and preparing and submitting all accounting reports to the district. After the district discovered this irregularity, the bookkeeper was placed on administrative leave with pay. When we interviewed the bookkeeper on October 21, 1996, she was unable to provide any reasonable explanation for the missing funds. She stated that she was not aware of the missing funds until the district informed her of this loss, even though she had custody of the accounting records which established that she was, in fact, accountable for the missing funds. She further stated that she did not take these funds, and that she assumed an unknown student must have taken these funds from her office without her knowledge. The bookkeeper was subsequently reassigned to other duties within the district.

RCW 42.20.070 states:

Misappropriation and falsification of accounts by public officer.

Every public officer, and every other person receiving money on behalf or for or on account of the people of the state or of any department of

the state government or of any bureau or fund created by law in which the people are directly or indirectly interested, or for or on account of any county, city, town, or any school, diking, drainage, or irrigation district, who:

(1) Shall appropriate to his or her own use or the use of any person not entitled thereto, without authority of law, any money so received by him or her as such officer or otherwise; or

(2) Shall knowingly keep any false account, or make any false entry or erasure in any account, of or relating to any money so received by him or her, or

(3) Shall fraudulently alter, falsify, conceal, destroy or obliterate any such account, or

(4) Shall willfully omit or refuse to pay over to the state, its officer or agent authorized by law to receive the same, or to such county, city, town, or such school, diking, drainage, or irrigation district or to the proper officer or authority empowered to demand and receive the same, any money received by him or her as such officer when it is a duty imposed upon him or her by law to pay over and account for the same, shall be punished by imprisonment in a state correctional facility for not more than 15 years.

The following internal control weaknesses allowed this loss to occur without being detected in a timely manner by district management officials.

- a. There was an inadequate segregation of duties. All of the accounting functions of the Renton High School ASB Fund were the sole responsibility of the bookkeeper. However, there was no periodic management review or monitoring of the work performed by the bookkeeper which would accomplish the same objective as a segregation of duties between two or more employees.
- b. Deposits were not made intact on a timely basis. ASB Fund checks were cashed from cash receipts, and bank deposits were made only 1-3 times per month.
- c. The bookkeeper resisted converting to a new, powerful computer provided by the district, preferring to use her own personal computer to do much of the accounting work for the district. School administration allowed the bookkeeper to perform her work at home during the 1995-96 school year. This situation was remedied the following year by a new school administrator.
- d. The bookkeeper did not use the district's courier system to transfer funds from Renton High School to the district and/or to the bank. Instead, she personally took these funds directly to the bank.
- e. The mode of payment (i.e., by check or cash) was not recorded on cash receipts or in the cash receipts journal for each cash receipt transactions. Thus, it was not possible to subsequently verify the composition of bank deposits. In addition, this function was not performed by anyone.

- f. The bookkeeper was always in balance because she was personally responsible for cash overages and shortages resulting from normal cashiering activities. Thus, these differences were not accounted for as miscellaneous income and expense in the district's accounting system.
- g. ASB Fund checks were made payable to "cash" rather than to the name of the club advisor or vendor. These checks are extremely high risk and could result in losses.
- h. While two signatures were required to authorize and approve the issuance of ASB Fund checks, we noted one redeemed check with only one signature. This action compromised the district's check issuance policy.
- i. The Renton High School change fund was insufficient for normal ASB Fund operations. Rather than requesting a larger change fund from the district, the bookkeeper prepared change funds for various clubs, functions, and activities from cash receipts which had not yet been deposited in the bank.
- j. Renton High School was not very aggressive in collecting funds due to the district as a result of non-sufficient fund (NSF) checks which were received in the normal course of business. We noted no redeposit transactions for any NSF checks during the period of our review, even though the district indicated that approximately 20 NSF checks were on hand for over \$500. The district's accounting procedures to monitor the status of all outstanding NSF checks needed to be improved to properly account for these transactions.
- k. There was no gross profit testing performed for the various retail sales fundraising activities at Renton High School. As a result, it was not possible for anyone to determine whether the district was receiving the proper amount of revenue from these activities.
- l. One person collected funds from the soft drink machines. In addition, these funds were not immediately counted and receipted. Instead, these funds were simply given to the bookkeeper for subsequent deposit. Under these circumstances, the bookkeeper had the ability to establish her own accountability for these funds. Thus, this is an extremely high risk cash receipt transaction at the district.
- m. The safe combination was not changed periodically or when employees with knowledge of the combination terminated employment with the district.
- n. The bookkeeper did not always require supporting documents for all ASB Fund disbursement transactions. Our review of selected reimbursement transactions for this fund disclosed that documentation was either not available or inadequate to support the expenditure of these funds. Thus, it was not always possible to determine whether these funds were expended for an authorized public purpose.
- o. The district accounting office did not adequately monitor the cash receipting records and accountability reports from Renton High School. As a result, no one noticed that cash receipts were not deposited on a timely basis or that issued cash receipts had been omitted from reports.
- p. While someone independent of the custodian of the ASB Fund checking account performed a monthly "bank reconciliation," the bank statement was reconciled to

the custodian's summary rather than the fund accounting records. Thus, the reconciliation provided no oversight or review

We recommend Renton School District seek recovery of the misappropriated \$1,703.30 and related audit/investigation costs from their insurance bonding company. We further recommend the Washington State Office of the Attorney General and the King County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

Bond coverage for district employees is as follows:

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|-----------------|--|
| Insurer: | Reliance Insurance Co. |
| Type of Policy: | Comprehensive Crime Coverage (under the liability insurance) |
| Policy Number: | JK 2537166 |
| Amount: | \$500,000 (with \$1,000 deductible provision) |
| Period: | September 1, 1995 to August 31, 1996 |

We also recommend Renton School District review overall ASB Fund accounting controls at all schools, correct the weaknesses outlined above, and implement an effective system of internal control designed to ensure the protection of public assets.

Auditee's Response

The Renton School District self-identified the Renton High School Associated Student Body Fund depositing problem and then appropriately contacted the State Auditor's Office. We appreciate the cooperation the Auditor's Office has extended and the sensitivity with which they handled the matter. This is an issue which the district takes very seriously and in which we have invested considerable time, energy, and effort in solving. The problems identified in this audit are predominately isolated to Renton High School. However, in our effort to prevent problems of this type from recurring, we are systematically examining our practices throughout the district and tightening those processes as needed.

Since discovering this problem at Renton High School, the district has taken many actions, including:

- *reassigning the Renton High School bookkeeper to other duties which do not include handling cash,*
- *realigning ASB duties among various district staff to ensure appropriate segregation of duties.*
- *hiring replacement staff at Renton High School and setting up appropriate internal controls over cash handling.*
- *reviewing, retraining, and re-emphasizing with school administrators the importance and requirement of administrative oversight and review of ASB transactions,*
- *revising the central office process of reviewing school deposit summaries so that:*
 - *accounting for sequential receipts (no missing receipts) is assured, and*
 - *long and short deposits are reviewed and, when appropriate, brought to managements's attention, and*

- *long and short deposits are properly accounted for in the school and the district accounting records, and*
- *school deposits are made on a timely basis.*
- *providing training on the district computer for new Renton High School ASB staff and reconfirming the district's expectation that all accounting work will be performed at work on district owned equipment,*
- *initiating the requirement that the district's courier system to transfer funds from the school to the district and/or bank be used and that personal transport on a regular basis is prohibited,*
- *re-enforcing that the mode of payment (e.g., cash, check) must be indicated on all receipts,*
- *re-enforcing that ASB checks may not be made payable to cash, that all checks must be made payable to a particular individual or entity with appropriate documentation,*
- *re-enforcing that ASB checks are required to have two signatures,*
- *identifying, authorizing and issuing the amount of imprest change fund necessary for normal ASB Fund operations,*
- *re-establishing the expectation that the school pursue collection of NSF funds,*
- *re-establishing the practice of adequate supporting documents for all ASB Fund disbursement transactions.*

One of the most important and significant tasks we have initiated is the establishment of a secondary ASB study team composed of school-based and central office staff including bookkeepers, cashiers, and administrators. They are charged with the tasks of systematically identifying weaknesses throughout the district and developing solutions. Some of the specific areas they are currently (or will be) working on include:

- *gross profit testing on retail sales fundraising activities*
- *cash collection from soft drink machines*
- *policy and procedure for safe combination changes*

We believe that district and Renton High School personnel have worked diligently to resolve these problems and implement appropriate internal control solutions. We are also confident that problems of this magnitude are isolated. However, we remain committed to identifying any other weaknesses which may exist elsewhere and resolving those issues before they have an opportunity to become significant.

Auditor's Concluding Remarks

Based upon the response, the issues delineated in our report appear to have been addressed. We will review these areas again in our subsequent audit.

We would like to express our appreciation to staff for their assistance and cooperation throughout the audit process.